

ENERGY POLICY FOR THE 21ST CENTURY

Floor Remarks – Senator Jeff Bingaman

September 6, 2001

Mr. President, I would like to take an opportunity to speak about the work currently underway in the Committee on Energy and Natural Resources to develop a comprehensive and balanced energy policy, and to inform my colleagues of the likely next steps in this process in Committee.

As I see it, Congress has an extraordinary opportunity this fall to set an energy policy that will sustain our economic prosperity in the 21st century. The Senate has a key role to play in seeing that this opportunity does not slip through our grasp.

A lot has changed since 1992—the last time that Congress enacted major energy legislation. We have seen energy markets become more competitive and dynamic, but not without some significant bumps.

- Consumers are more vulnerable to the vagaries of energy markets, as any electricity customer in California can tell you.
- Gasoline supplies are increasingly subject to local crises and price spikes, due to the proliferation of inflexible, local fuel specifications.
- We rely more heavily each year on natural gas to heat our homes and produce electricity, but our system for producing and transporting natural gas is showing signs of reaching its limits.
- And the need to address the fundamental connection between energy and global warming is greater than it has ever been.

I'm pleased that most of my colleagues in the Senate recognize these challenges. I believe that there is a bipartisan consensus in favor of a sensible energy policy that will smooth out the bumps in the market by increasing our energy efficiency, boosting our energy supplies, and modernizing our energy infrastructure.

Technology and policy innovation will be key to achieving this balanced outcome, so that Americans can have reliable, affordable energy choices that are sustainable over the long term. Our energy problems cannot be effectively addressed by packaging up a collection of

tired old wish lists and ramming it through a floor debate in a day or so. Energy consumers, producers, and several Committees here in the Senate will need to focus on new policy approaches, if we want to protect our national economic prosperity by through using smarter ways to produce and use energy.

For this reason, as the Senate takes up and considers energy legislation this fall, my colleagues and I will be talking often about the need for new, proactive policies and technology-driven approaches to our energy problems.

We have made a good start in the Committee on Energy and Natural Resources, which began its mark-up of comprehensive energy legislation before the August recess. The first part of the bill to be substantially completed is a comprehensive revitalization of our national capabilities for energy research and development (R&D). Putting R&D first reflects a broad consensus that new science and new technology are at the core of any solution to our national energy challenges. Despite the importance of energy R&D, our recent commitment to it leaves a lot to be desired. Federal energy technology R&D today is equivalent, in constant dollars, to what it was in 1966. Yet, our economy is 3 times larger today than it was in 1966. It's hard to see how you build a 21st century energy system on 1960's-level-of-effort R&D budgets.

The Committee will continue its deliberations beginning next week. The major topical areas before the Committee as we move forward in our mark-up will include policy proposals to improve energy efficiency, to improve our ability to produce energy from a diversity of sources, and to tackle the tough issues relating to electricity regulation. Today, I am releasing a detailed description of my proposed Chairman's Mark in these areas. I am also releasing the text of the next major portion of the bill that we will be working on in Committee. This part of the bill will deal with electricity, providing a framework to:

- integrate new technologies into electricity markets,
- provide high-quality, efficient electricity generation in every community, and
- give consumers new ways to manage and control their energy use and costs.

I would like to take this opportunity to describe some of the key proposals in this Mark to the Senate in greater detail.

Energy Efficiency

With respect to energy efficiency, the Chairman's Mark for the energy policy bill will contain provisions that will improve energy efficiency in household appliances, in Federal and other facilities, and in industry.

This section of the Chairman's Mark will not contain a specific proposal on CAFE standards for automobiles and light trucks. CAFE standards are in the jurisdiction of the Senate Commerce Committee, and we will look to them to mark up a bill on this topic that can be merged with the bill that will come from the Energy Committee.

Let me state my belief, though, that increasing vehicle fuel efficiency is one of the highest legislative priorities that the Senate should have in energy legislation. In addition to our growing dependence on foreign imported oil, we have reached the limits of our current infrastructure to refine and distribute fuels. A policy of simply continuing to increase the demand for gasoline is not sustainable. Fortunately, advanced technology in a variety of areas to improve automotive fuel efficiency offers a better answer.

I believe that the National Academy of Sciences has given us some very useful ways of thinking how to reformulate the CAFE program. Clearly, consumers want the option to choose the type of vehicle that suits their needs and preferences. They also want to be able to count on reliable and affordable fuel supplies.

While CAFE standards are not in the Energy Committee's jurisdiction, a number of other mechanisms to encourage greater fuel efficiency in cars and trucks are. The Mark will contain purchase requirements for federal fleets that will provide greater incentive to automobile and truck manufacturers to produce more highly efficient vehicles.

A topic closely allied to vehicle fuel efficiency is the question of the fuels that we will need in the future to power cars and trucks. Here, the Congress has, I think, a clear duty to address the growing multiplicity of fuel specifications around the country. Part of the solution to this problem will be provided by a bill in the Committee on Environment and Public Works, sponsored by Senators Smith and Reid. I hope that these provisions find their way into our overall energy bill in the Senate.

The Chairman's Mark will include a number of energy efficiency provisions relating to appliances. Perhaps the most visible proposal in this regard will be one that enacts a 13 Seasonal Energy Efficiency Rating (or SEER) for central air conditioning units. Such a standard was finalized earlier this year, but since then the Bush Administration has attempted

to withdraw it and substitute a lesser standard. The Committee on Energy and Natural Resources held hearings on this topic and the record before the committee has persuaded me that the Administration based its decision on economic information that was outdated and inaccurate. A 13 SEER rating for central air conditioning units can do a lot to help avoid summer blackouts and brownouts when high temperatures send electricity demand soaring. During the intense heat wave we had in early August, which was felt nationwide, peak demand from air conditioning did, in fact, lead to problems in electricity availability in some parts of the country, while others were uncomfortably close to the margin. We need to build more efficiency into this part of our system over the long term, and a higher standard for these large air conditioning units will help.

The Chairman's Mark will also require the federal government to purchase Energy Star or other efficient products designated by the Federal Energy Management Program. This is a requirement that, again, makes eminent sense. Taxpayers save money, and the cost of energy-efficient appliances to consumers comes down, when the federal government takes a leadership role in purchasing highly energy efficient computers, office machines, and other appliances.

The Mark also authorizes a grant program to help build energy-efficient schools. School districts can ill afford to waste taxpayer funds on excessive energy bills because of the inefficiency of school buildings.

New Domestic Production of Oil and Gas

With respect to new energy sources, it is important that the Senate look to policies that will truly improve our supplies of domestic energy security, including measures to improve our supply of natural gas and to diversify our energy mix to include a greater reliance on domestic renewable resources. These are the type of provisions that I will include in the Chairman's Mark.

I will not be including in the Mark any provisions relating to drilling for oil in the Arctic National Wildlife Refuge. The debate over oil drilling in the Arctic National Wildlife Refuge—a long-standing bone of contention in energy policy—is in many ways a distraction from more important opportunities to bolster our domestic energy security. Oil produced from the Arctic Refuge is not likely to influence the world price of oil, or the prices that U.S. consumers pay for gasoline. I plan to focus attention in the Energy Committee mark-up on a number of issues

that will have a greater impact on our domestic production of oil and gas and a larger near-term impact than drilling in the Arctic.

The first such issue is another Arctic resource that could be brought to U.S. markets – natural gas. The exploration for oil in the Prudhoe Bay region of Alaska has resulted in the discovery of abundant supplies of natural gas, but there is now no way to bring that gas to markets in the lower 48 states that could benefit from it. The projection of growing demand for natural gas has re-awakened interest in building a pipeline from Prudhoe Bay to Alberta, Canada, where it would join with existing gas pipelines that serve the United States. That pipeline would be an enormous construction project on the part of the private sector, requiring perhaps 2,000 miles of steel pipe and costing \$20 billion. A lot of spurious job numbers have been floated about drilling in the Arctic Refuge. The gas pipeline would be the real thing.

If we do not act while there is substantial private-sector interest in building the Arctic gas pipeline, we will lose an important opportunity to bolster our national energy security in natural gas. If we do not bring the Alaska gas to market, then our growing demand for gas will be met by large-scale import of liquefied natural gas (or LNG). At \$3 or less per million BTU, imported LNG will be cheaper than Alaska gas. But it would be foolhardy to look at the issue solely through the prism of short-term economics. We are already more than 50 percent dependent on foreign oil. If we do nothing about the Arctic gas, we could wind up being similarly dependent on foreign natural gas, from many of the same OPEC countries from which we import oil. That is an economic and national security issue.

We face a clear moment of decision. The Chairman's Mark that I will bring before the Committee will contain authorizing provisions to streamline the regulatory approval process to move forward with the pipeline. We may find a mechanism to ensure that the domestic option for a pipeline route is chosen. I hope to be able to work with my colleague from Alaska during the mark-up to help make that happen.

The second key initiative for domestic production is to undertake a top-to-bottom review of both federal and state royalty and tax policy on domestic oil and gas production. Our current policies were put in place when the U.S. had abundant and easily accessible reserves. We have fewer such reserves now, and while technology for finding oil has continued to improve, we should consider whether the financial structure we have in place should change to one that enhances the economics of exploring for oil and gas in more challenging geological formations. It should also take into account the boom-and-bust nature of the industry, and provide incentives to maintain domestic production when prices are low.

The third proposal is to provide adequate funding for the federal programs that actually make new leases for oil and gas available to domestic producers. For all the rhetoric from the Administration about the need to boost production, it has not asked for enough money to do it right. The result is likely to be further delays and frustration on the part of U.S. oil and gas producers. The Chairman's Mark will provide authorization that can guide future budget requests by the Administration, so that we take the necessary steps to make oil and gas leasing faster and more predictable.

Electricity

As I mentioned earlier in these remarks, the next major topic that we will take on in this mark-up will be need to provide for reliable and diverse electric power generation and distribution. Electricity is essential to our modern way of life. Yet our electric system largely operates on a design that is nearly a century old. There are many problems in our electricity markets that need to be addressed. The problems faced by California and the West earlier this year should be a wake-up call to us all.

What the electricity crisis in California showed is that the institutions that developed in the last century have not evolved enough to ensure reliable and affordable supplies of electricity. We face a crucial turning point. During the next few years, billions of dollars of investment will be planned and committed to electric generation and transmission. Those investments will have 30 to 50-year life spans. Will we put in place a structure to maximize the chances that investment will go to new technologies that will give consumers real choices over their energy use? Or will Congress, by its inaction, perpetuate obsolete frameworks for managing electricity markets, with the result that we wind up with little improvement over the status quo?

I believe Congress and the President have an extraordinary opportunity to be visionary about the future of electricity. A transmission grid that is open to a wide variety of generation options, including distributed generation, will ensure the power quality and efficiency that our 21st century society will need in order to sustain its economic prosperity.

That opportunity creates a clear duty on Congress and the President to focus on electricity as a major part of comprehensive energy legislation. Our task must be to build a regulatory structure that has adequate authority to resolve market defects, without interfering unduly in those markets. I believe that we must move forward now with a legislative solution. To leave

electricity legislation for another day would be to perpetuate an obsolete system that will not provide the reliability, quality, affordability, and choice that consumers will want and need.

The changes that I believe are needed, and that are addressed in the Chairman's Mark, include the following:

First, the Chairman's Mark will clarify who has jurisdiction over regulating electricity transmission in interstate commerce. That role is assigned to the Federal Energy Regulatory Commission, or FERC. FERC will be given authority to ensure that all electric transmitting organizations in interstate commerce play by a consistent set of fair rules.

Second, the Chairman's Mark will give FERC the responsibility for taking the current voluntary system for promoting reliability in electric transmission and making adherence to reliability rules mandatory.

Third, the Chairman's Mark will give the FERC the tools to ensure that competitive markets work well to provide customers with affordable electricity.

Fourth, the Chairman's Mark will address the tough issue of siting new transmission facilities. A national transmission grid is a necessity, but cannot occur without a new approach to transmission planning, expansion, and siting. Federal eminent domain, by itself, is not likely to lead to an effective approach to meeting this need. What is needed is to use federal eminent domain as a backstop to a more cooperative, regionally based approach to transmission and siting issues. Thus, the Chairman's Mark will rely on regional transmission organizations to do the bulk of transmission planning, expansion and siting. Only if those regional entities are stymied will a federal eminent domain authority be invoked, and that authority will be used only to implement the decisions taken regionally.

The Chairman's Mark will include a repeal of the 1935 Public Utility Holding Company Act, or PUHCA, but the protections in that act will be replaced by giving FERC jurisdiction over mergers of holding companies that own utilities and over acquisitions of generation assets.

Finally, the Chairman's Mark will ensure that there is transparent information on market transactions.

Other Electricity Provisions

As part of a balanced and comprehensive legislative solution, the Chairman's Mark also includes numerous benefits and protections for consumers, so that we don't repeat the mistakes of telecom deregulation. These include an emphasis on ensuring future access by rural, remote, and Indian communities to electricity; protection of consumers from unfair trade practices; and a Public Benefits Fund to ensure that there is a way to fund electricity programs in the public interest.

The Chairman's Mark also includes a series of provisions to ensure that we have a greater role in our electricity generating system of the future for renewables and distributed generation, while maintaining the contribution made by existing sources of baseload generation, such as hydropower and nuclear. Among the important tools for making sure we have diversity in our sources of electricity is a renewable portfolio standard, uniform interconnection standards to the electric grid, greater flexibility and predictability to the process of relicensing hydroelectric dams, and a reauthorization of parts of the Price-Anderson Act.

Climate Change

Finally, a common thread among many of the provisions that I have already discussed is one of the most important public policy challenges of the 21st century -- climate change. Climate change policy and energy policy are inseparably linked, because energy production and use are leading sources of greenhouse gases in the atmosphere. The Senate must ensure that the energy legislation it passes makes a meaningful positive contribution to the Earth's long-term environmental health. Many of the provisions that I have already discussed -- energy efficiency, more renewables -- contribute to this goal. The Chairman's Mark will contain some additional provisions to promote better information and policy on greenhouse gas emissions.

Energy policy is a difficult and complex topic. Getting to a solution that gives America a vibrant energy infrastructure and the right policies for the 21st century will require careful work on complicated issues. Our nation's future economic prosperity, and the jobs of millions of Americans, are at stake. I hope that the approach taken in the Senate combines a thoughtful analysis of our current energy challenges with a willingness to take bold policy steps to address them. That certainly is the spirit in which I will be offering proposals to my colleagues in the Committee on Energy and Natural Resources.